I. Operation Strategies

The Group will continue its efforts in the consolidation of the value chain to maintain its position as a quality cement production and service provider. Apart from focusing on high grade, high quality products, and personal and timely services, the Group also emphasize prudent and sound management. The focus for 2005 will include the control of capital expenditures, enhancement of cash flow, leveraging of existing supply to increase market share and targeting markets with higher profit margins.

II. Review of 2004 Results

1. The Group's overall operations

In 2004, the Group sold a total of 2,787,909 tonnes of cement and clinker with a turnover of US$81,944,000, representing an increase of 5% over those of 2003. During the year, faced with the pressure on the cement market brought about by austerity control measures of the PRC government, the Group continued to increase the ratio of high-grade cement, expand its sales and logistics network, and target higher profit margin areas. In preparation for capacity expansion and strict compliance with the Rules governing the Listing of Securities on the Stock Exchange distribution and administrative costs increased. As a result, net profit for the Group come to US$14,693,000 in 2004.

In 2004, the Group completed an investment of approximately US$8,533,000 in non-current assets, which were mainly applied in the upgrade of the existing production equipment.

The Group also focused on the expansion of markets and distribution channels. In 2004, 7 sales offices were opened in Nantong city, Zhenjiang city, Changshu city, Liuhe district, Taichang city, Zhoushan city and Changnan county respectively. Together with the expansion of logistics facilities through leasing and strategic alliance, optimising its customer structure, and enhancing its customer service, the Group was able to expand market coverage.

Set out below are the Group's operating results, cash flow and financial situation in 2004.

Clinker Cooler

Condensed Consolidated Balance Sheet of the Group as at 31 December

	2004	2003
	US$'000	US$'000
Fixed assets and land use right	**227,107**	226,743
Cash and cash equivalent	**59,378**	64,992
Other current assets	**32,534**	24,779
	319,019	316,514
Shareholders' equity and liabilities		
Share capital	**11,429**	11,429
Share premium and reserves	**187,983**	173,061
Bank borrowings	**111,756**	121,386
Other liabilities	**7,851**	10,638
	319,019	316,514

Condensed Consolidated Income Statement of the Group
for the year ended 31 December

	2004	2003
	US$'000	US$'000
Turnover	**81,944**	78,012
Less: Cost of sales	**(53,916)**	(47,343)
Operating costs and other operating expense	**(11,614)**	(9,101)
Finance costs	**(3,142)**	(2,907)
Plus: Other operating income	**1,421**	356
Net operating profit	**14,693**	19,017

Condensed Consolidated Cash-flow Statement of the Group
for the year ended 31 December

	2004	2003
	US$'000	US$'000
Cash-flow from operating activities	**15,541**	33,671
Cash-flow used in investing activities	**(7,784)**	(6,201)
Cash-flow (used in) from financing activities	**(13,372)**	27,488
Effect on changes in exchange rates	**1**	(11)
Cash and cash equivalents as at 1 January	**64,992**	10,045
Cash and cash equivalents as at 31 December	**59,378**	64,992

2. Analysis of the Group's financial performance

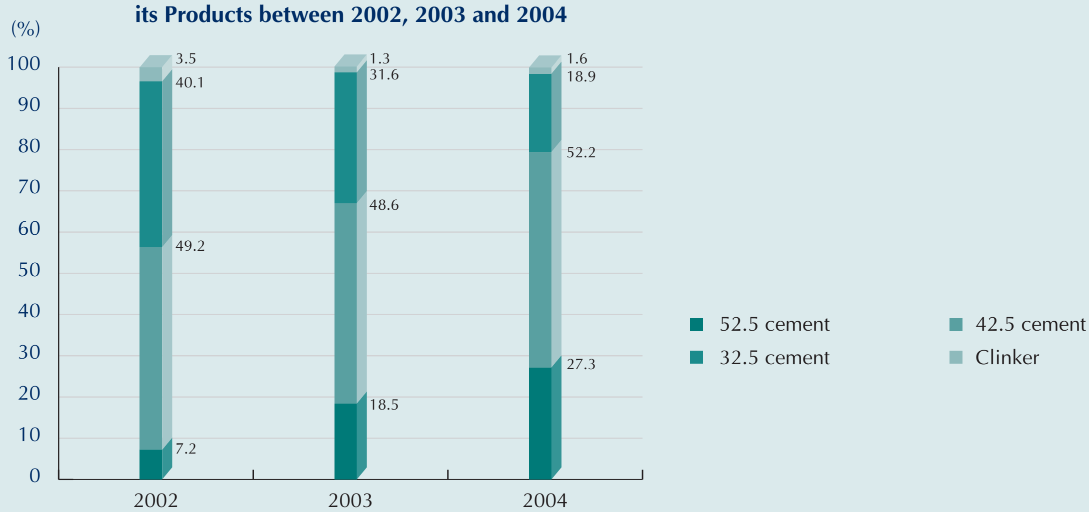
2.1 Turnover

2.1.1 Breakdown of turnover by products

Set out below is an analysis of the Group's turnover in terms of its products for the year ended 31 December.

Products	2004 Turnover US$'000	2004 Percentage %	2003 Turnover US$'000	2003 Percentage %
52.5 cement	**22,360**	**27.3**	14,457	18.5
42.5 cement	**42,739**	**52.2**	37,874	48.6
32.5 cement	**15,505**	**18.9**	24,653	31.6
Subtotal	**80,604**	**98.4**	76,984	98.7
Clinker	**1,340**	**1.6**	1,028	1.3
Total	**81,944**	**100.0**	78,012	100.0

An Analysis of the Group's Turnover in terms of its Products between 2002, 2003 and 2004



The Group's operating income was mainly generated from its principal business, being production and sales of cement and clinker. Meanwhile, the Group also leveraged on its edge in technological management and generated income from technological service. In 2004, the Group's turnover increased 5% over 2003, which was mainly attributable to the increase in the average selling price of the Group's products of approximately 11% over the previous year. Increase in the average selling price was mainly due to the Group's sales efforts in maintaining the higher market prices in the first half of 2004 and optimising the geographical coverage of its distribution and clients. The Group's further increased in high-grade cement also contributed to the increase in average selling price.

Five largest customers

Sales to the largest customer of the Group in 2004 accounted for approximately 10.9% of the Group's total sales, whereas sales to the five largest customers accounted for approximately 32.2% of the Group's total sales.

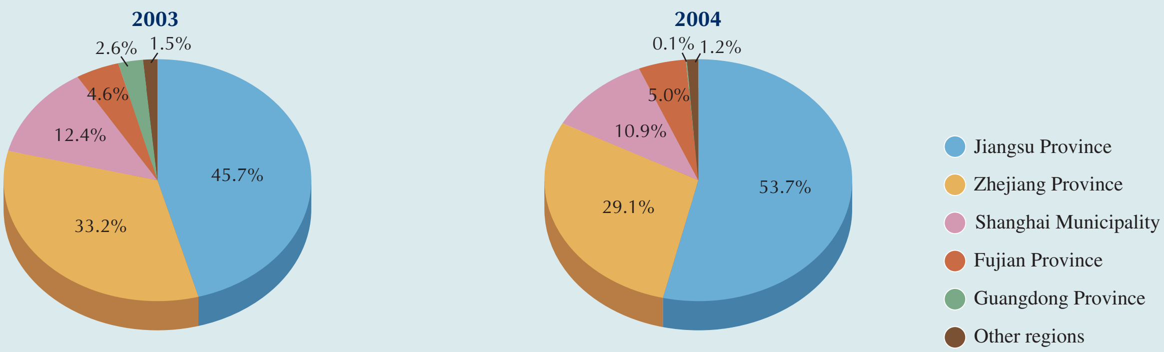
During the period under review, Shanghai Chia Hsin Ganghui Company Limited ("Ganghui") was the largest customer of the Group. Ganghui is an indirect wholly-owned subsidiary of Chia Hsin Pacific Limited and a connected person (as defined in the Listing Rules) of the Group. Other than Ganghui, none of Directors and their associates (as defined in the Listing Rules) or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has an interest in the five largest customers.

2.1.2 Breakdown of turnover by region

Set out in the table below is an analysis of the Group's turnover in terms of its geographical region of sales for the year ended 31 December.

	2004		2003	
Sales Region	**Turnover US$'000**	**Percentage (%)**	Turnover US$'000	Percentage (%)
Jiangsu Province	**44,030**	**53.7**	35,656	45.7
Zhejiang Province	**23,824**	**29.1**	25,889	33.2
Shanghai Municipality	**8,897**	**10.9**	9,660	12.4
Fujian Province	**4,092**	**5.0**	3,574	4.6
Guangdong Province	**105**	**0.1**	2,014	2.6
Other regions	**996**	**1.2**	1,219	1.5
Total	**81,944**	**100.0**	78,012	100.0

An analysis of the Group's turnover in terms of its geographical regions



In 2004, the Group's sales attributable to Jiangsu Province and Fujian Province increased, which was mainly due to the relatively higher profit margin of cement recorded in these regions. The Group leveraged on the advantage of the existing and newly established sales networks, and increased its sales efforts in these regions so as to obtain higher return.

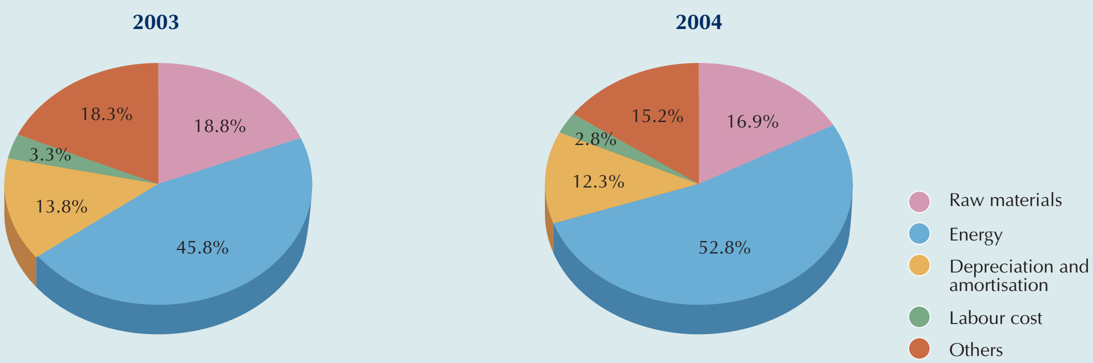
2.2 Cost of sales

2.2.1 Description of costs

Set out in the table is the breakdown on the Group's cost of sales for the year ended 31 December:

Items	2004 Amount US$'000	2004 Percentage (%)	2003 Amount US$'000	2003 Percentage (%)
Raw materials	**9,122**	**16.9**	8,873	18.8
Energy	**28,441**	**52.8**	21,704	45.8
Depreciation and amortisation	**6,626**	**12.3**	6,551	13.8
Labour cost	**1,528**	**2.8**	1,572	3.3
Others	**8,199**	**15.2**	8,643	18.3
Total	**53,916**	**100.0**	47,343	100.0

Breakdown on cost of sales



In 2004, the Group's average cost of sales was US$19.3 per tonne, an increase of 20% over 2003. Increase in average cost of sale was mainly attributable to the increase in prices of raw materials and energy. The increase was also due to the Group's product composition further shifting to high-grade cement. Under this situation, the Group devoted efforts to control the increase in costs by lowering its coal and electricity consumption and looking for alternative fuel suppliers.

Five largest suppliers

In 2004, the Group's purchases from the largest supplier represented approximately 27% of total purchase; while purchase from the five largest suppliers represented approximately 71% of the Group's total purchase. None of Directors and their associates (as defined in the Listing Rules) or any shareholders (which to the knowledge of the directors owns more than 5.0% of the Company's share capital) has an interest in the five largest suppliers.

2.2.2 Effect on costs due to movement in prices of energy and raw materials

Energy:

The cost of energy represented approximately 52.8% of the Group's total cost of sales. Changes in energy prices had great impact on the Group's total costs. Main energy sources for the cement industry are raw coal and electricty. The Group has been closely monitoring the changes in raw coal price and has adopted various measures such as execution of long-term contracts and establishment of long-term relationships with suppliers to control the procurement cost of raw coal. In 2004, the PRC was faced with shortage in energy and supply of raw coal. Price of raw coal continued to increase and the average procurement price of raw coal increased by 49% over 2003. In addition, electricity is essential to cement production. Shortage in electricity supply directly affect the Group's production. In 2004, supply of electricity in Eastern China as a whole was inadequate. The Group adopted various measures to ensure power supply such that the Company's normal production was not affected. Price of electricity in 2004 increased slightly by 5%.

Limestone:

The cost of limestone represented approximately 8% in the Group's product costs. The supply of limestone directly affects the Company's production. Currently the Group owns a private limestone mineral reserve of 320 million tonnes, with a special LBC for transporting the limestone to the production plant, ensuring the consistent supply of limestone.

2.3 Gross operating profit

In 2004, the Group recorded a gross profit of US$28,028,000. The annual average gross margin was 34.2%, a decrease of 5.1 percentage point over 2003. The decrease in gross margin was mainly attributable to the continuous increase in cost of sales and intense competition in the cement industry, leading to a substantial decrease in market price of cement in the second half of the year.

Set out in the table below is an analysis of the Group's gross profits in terms of its products for the year below ended 31 December:

	2004			2003		
Product	**Total gross profit US$'000**	**Percentage (%)**	**Gross Profit Margin (%)**	Total gross profit US$'000	Percentage (%)	Gross Profit Margin (%)
52.5 cement	**7,529**	**26.9**	**33.7**	5,472	17.8	37.8
42.5 cement	**14,983**	**53.4**	**35.1**	15,444	50.4	40.8
32.5 cement	**5,459**	**19.5**	**35.2**	9,359	30.5	38.0
Clinker	**57**	**0.2**	**4.3**	394	1.3	38.3
Total	**28,028**	**100.0**	**34.2**	30,669	100.0	39.3

2.4 Operating costs

The Group's distribution costs, administrative expenses amounted to US$10,891,000 in total, representing an increase of 24% compared with 2003. Distribution costs increased due to enhancement of the sales network, the formation of work team and strengthing of customer services, in order to cater for future development. Administrative expenses increased due to the number of months with expenses incurred by the directors in 2003 was less than that of 2004. It was also due to the implementation of the corporate governance in accordance with the Listing Rules since the Group's listing on 12 December 2003.

2.5 Finance costs

The finance costs of the Group were US$3,142,000 in 2004, representing an increase of 8% over 2003. This was mainly because the base of the Group's average interest bearing borrowings in 2004 was higher than 2003.

2.6 Taxation costs

2004 was the second tax exemption period of Jingyang Cement, the subsidiary of the Group in the PRC. No income tax was incurred during the year. Pursuant to the Income Tax Law of the PRC for enterprises with Foreign Investment, Jingyang Cement is entitled to a 50% tax reduction for a six-year term starting from 2005.

2.7 Earnings per share

The Group's earnings per share in 2004 were US cents 1.29. This represented a decrease compared with 2003, which was mainly attributable to the reduction of the Group's profit compared with 2003. Since the Group was listed on 12 December 2003, though there was no change in the number of issued ordinary shares of the Company during the year ended 31 December 2004, the number of outstanding shares in issue was more than the weighted average number of shares of the Company in 2003.

3. An analysis of capital and financial position

3.1 Cash flow

Cash flow from operating activities

Cash flow from operational activities was US$15,541,000 in 2004, representing a decrease of US$18,130,000 over 2003, which was mainly due to the following three reasons. Firstly, the Group's operating profit was less than that in 2003. Secondly, the Group made adjustment on credit policies pursuant to the change in cement market in 2004. Longer credit periods were granted to customers with better credit histories. Therefore, accounts receivable in 2004 were higher than in 2003. Thirdly, there was a shortage of power and raw material supply in 2004. In order to ensure better supply of power and raw materials, the Group settled payments with better conditions, subject to the availability of capital, resulting in a decrease in accounts payable.

Cash flow used in investing activities

The cash flow used in investment activities was US$7,784,000 in 2004, of which US$749,000 was bank interest income, and US$8,533,000 was investment expenses of non-current assets mainly for upgrading and modifying the existing facilities in order to raise cement output.

Cash flow used in financing activities

The cash used in financing activities amounted to US$13,372,000 in 2004, of which the net contracted loan principal payment based on loan agreement, loan interest payment according to repayment term, and settlement of other long-term payables accounted for US$9,630,000, US$3,018,000 and US$724,000, respectively.

3.2 Financial position

As at 31 December 2004, the total assets of the Group amounted to US$319,019,000, an increase of US$2,505,000 over 2003. The total liabilities amounted to US$119,607,000, a decrease of US$12,417,000 over 2003. The shareholders' equity amounted to US$199,412,000, up US$14,922,000 over 2003.

3.2.1 Fixed assets

As at 31 December 2004, the net book value of fixed assets of the Group were US$209,493,000. The property accounted for US$55,470,000, and plant and equipment accounted for US$146,860,000. Construction-in-progress accounted for US$1,246,000, and other fixed assets accounted for US$5,917,000. Increase in fixed assets was mainly attributable to the upgrade of the Group's existing production equipment.

3.2.2 Current assets and current liabilities

As at 31 December 2004, the current assets of the Group were US$91,912,000, which mainly included inventories of US$13,338,000 and trade receivables of US$15,947,000, cash and cash equivalents of US$59,378,000 and other current assets of US$3,249,000. Although trade receivables were higher than those of 2003, 80% consisted of notes receivable which had a higher degree of recovery.

As at 31 December 2004, the current liabilities of the Group were US$24,657,000, which included trade payables of US$4,178,000, long term borrowings due within one year of US$16,806,000 and other current liabilities of US$3,673,000.

3.2.3 Structure of interest-bearing borrowings

As at 31 December 2004, the Group had interest bearing borrowings of US$111,756,000, comprising unsecured short-term bank loans of US$2,416,000 and secured bank loans of US$109,340,000.

Maturity analysis of the Group's bank loans as at 31 December 2004:

	2004		2003	
	Amount US$'000	**Percentage (%)**	Amount US$'000	Percentage (%)
Within one year	**16,806**	**15.0**	12,046	9.9
In the second year	**21,040**	**18.8**	14,390	11.9
In the third to fifth year inclusive	**63,120**	**56.5**	63,120	52.0
Over five years	**10,790**	**9.7**	31,830	26.2
Total	**111,756**	**100.0**	121,386	100.0

As at 31 December 2004, the bank borrowings were secured by the assets of the Group with a net book value of US$155,873,000, including property, plant and equipment of US$139,099,000, the land use rights of US$16,532,000 and the bank deposits of US$242,000.

The unsecured short-term bank loans were denominated in RMB, bearing an average interest rate of 4.54% per annum.

The secured bank loans are denominated in US dollars and bear an average interest rate of LIBOR plus 0.986% per annum.

3.2.4Capital commitments

	2004	2003
	US$'000	US$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided in the financial statements	**790**	4,710

3.2.5Financial ratio

	2004	2003
	(days)	(days)
Average turnover period of trade receivables	**52**	57
Average turnover period of trade payables	**26**	31
Average turnover period of inventories	**79**	74
	(times)	(times)
Current ratio (note 1)	**3.7**	4.0
Quick ratio (note 2)	**3.2**	3.5
	(%)	(%)
Gearing ratio (note 3)	**35.0**	38.4
Debt to equity ratio (note 4)	**56.0**	65.8

Notes:

1. *Current ratio = current assets / current liabilities*
2. *Quick ratio = (current assets - inventories) / current liabilities*
3. *Gearing ratio = loans / total assets*
4. *Debt to equity ratio = loans / shareholders' equity*

The Company maintains a relatively high level of financial liquidity, which in turn provides for a relatively sound financial structure.

3.2.6Shareholders' equity interests

As at 31 December 2004, the shareholders' equity interests of the Group amounted to US$199,412,000. The shareholders' equity interests comprised of the following:

	2004		2003	
	Amounts US$'000	**Percentage (%)**	Amounts US$'000	Percentage (%)
Share capital	**11,429**	**5.7**	11,429	6.2
Share premium and reserves	**187,983**	**94.3**	173,061	93.8
Total	**199,412**	**100.0**	184,490	100.0

As at 31 December 2004, the shareholders' equity interests increased 8% by compared with 2003. The increase was mainly derived from our principal operating activities.

4. Employees and Remuneration Polices

At 31 December 2004, the Group had approximately 705 full-time employees. The Group has continuously adopted a "people-oriented" human resources policy and placed great emphasis on the development and ability enhancement of its employees. Remuneration is maintained at competitive levels. Other staff benefits provided by the Group include mandatory provident fund, insurance and performance related bonus.

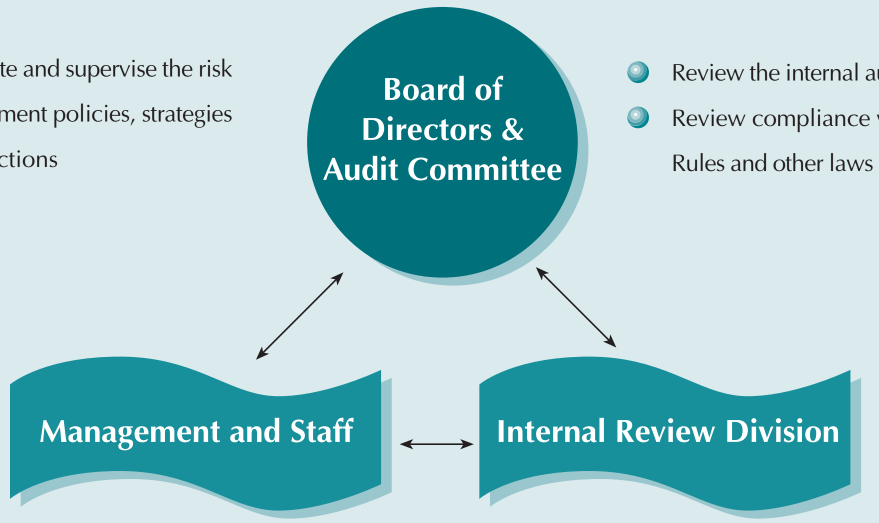
III. Risk Management

The Group is not only concerned with maximising shareholder interests, but also concerned with the various risks in the Group's operation. Corresponding measures of corporate risk management were implemented. The Group has now in place an appropriate corporate governance structure and supervisory and control procedures so as to ensure the achievement of its objectives, policies and strategies.

1. The overall risk management framework

- Formulate and supervise the risk management policies, strategies and functions

- Review the internal audit procedures
- Review compliance with the Listing Rules and other laws and regulations



- Assess, inspect and monitor our risk exposure
- Adopt risk preventive measures
- Implement risk preventive measures
- Assess the level of implementation by a self-assessment system

- Inspect internal control implementation
- Monitor the compliance with relevant laws and regulations
- Assesse the internal control system of the management and staff

2. Risks and corresponding measures

The major risks faced by the Group in its operating activities include market risks, operational risks and finance risks. We have corresponding risk control measures. Some risks and control measures are as follows:

2.1 Market risks

2.1.1 The impact of policy changes on the cement industry

The Central Government intensified austerity control measures at the beginning of 2004, leading to market fluctuation in the cement industry. The Group manages the risks with the following measures:

- Capitalizing on its industry experience and good relationship with the relevant authorities, the Group is fully in touch with and has a through understanding of policy changes. This enables the Group to effectively analyse and assess the possible impacts of related policies and implement corresponding measures in a timely manner

- The Group is also fully in touch with the demand and supply situation in the cement industry. Before making investment decisions, management will fully assess the impact of fluctuations in policy and in the industry itself to determine the best timing

2.1.2 Increasing competition in the cement industry and continuing low cement prices

The cement market in the PRC is oversupplied by a large number of cement production enterprises. In 2004, the cement industry was characterized by sharp increase in production capacity and intense competition. There is risk of continuous reduction of cement prices. The Group manages this risk exposure through the following measures:

- Adhering to a rational cement sales strategy. As the market for low-grade cement is more competitive, the Group is continually increasing the sales proportion of high-grade cement and maintaining a lower ratio of low-grade cement output. This enable the Group to expand its market coverage and satisfy the specific needs of long-term customers

- Expanding its sales network and enhance after-sales service. The Group has an extensive sales network, with the additions of 7 new sales offices in 2004 to organize marketing activities in specific regions and logistic facilities such as silo-terminal. The Group has ample capacity to balance the sales volumes among different sales regions and provide quality services that our pricing could be maintained at a relatively high level in the market

- Stringent and effective pricing control system. The Group has a strict and effective internal system for pricing control. This ensures that the pricing of its products could be set at a reasonable level amidst intense market competition

- Diverse customer base and strong and stable customer relationships. The Group has a diverse customer base and medical and strong and stable customer relationships. Medium and long-term contracts has been entered with suitable customers to alleviate the impact of stronger competition and price fluctuation, and to balance seasonal sales volume

- Expanding export volume and exploring growth opportunities proactively. The demand of the international cement market was strong in 2004. Cement consumption jumped in the United States, South Africa and the Middle East. Leveraging on its experience in international business operations and market share in the international market, the Group can adjust its export ratio in a timely manner

2.1.3 Collection of trade receivables

Customer payment ability was lower in 2004 compared with 2003. The Group faces the risk of difficulty in trade receivable collection. The Group adopt the following measures for risk control:

- Establishing credit ranking system. The Group set up the credit ranking of long-term customers after investigation on their creditability and will conduct credit check as and when needed or implement security measures

- Continuing cash payment terms with certain customers or delivery only after receiving reliable notes

2.2 Operational risks

2.2.1 Power and fuel supply

The Group faces the risks of increasing shortage of coal and power supply as well as increasing prices though the elimination of some outdated production lines with high coal consumption may help decrease some of the risk faced from intense competition for power and fuel. As a result, the Group adopts the following corresponding measures:

- Strengthen relationships with existing coal suppliers, and diversifying procurement channels ensure that coal supply will not affect our normal operations and price increases will be maintained at a reasonable level

- Utilize and allocate various resources at the production bases appropriately to guarantee power supply

- Leveraging its strengths in technology and equipment, the Group will reduce coal and electricity consumption so as to eliminate the adverse impact of energy price upsurge

2.2.2 Limestone supply

Limestone supply is important to stabilising cement cost and assuring quality. The Group has always been concerned about limestone supply:

- The Group has limestone reserves of approximately 320 million tonnes, ensuring limestone supply for 100 years based on existing production capacity

- The Group concentrates on quarry mine matching technology to maximize resource utilization rate. The Group's limestone mines are recognized by the PRC Ministry of Land and Resources as "Model Limestone Mines"

2.2.3 Product quality

The Group emphasizes on product quality. It adopts the following measures to achieve this aim:

- Controlling product quality by technological design and facilities installation. The Group injected substantial investment in technological design and facilities installation when building the plant by adopting class, advanced production techniques to guarantee product quality

- Continuous improvement of an effective quality assurance system. The Group's excellent quality assurance system guarantees product quality and standardization. This plant has been accredited with the CQBM product quality certificate and ISO9001:1994 quality management system certificate. In addition, in 2002 the Group obtained an upgrade to ISO9001:2000 quality management system certificate

2.2.4 Environmental protection

Environmental protection is an increasing concern with the community and the government and is an important consideration for the Group. Some measures adopted by the Group include:

- Using state-of-the-art foreign made dry-process rotary short kiln technology. It has the advantages of energy conservation and environmental friendliness. The dust emissions comply with standards in the PRC. The sulphur dioxide and nitrogen oxide discharge levels also comply with international standard. The Group was accredited the ISO14001:1996 environmental management system certificate in 2002

- The Group has established a dedicated department in charge of environmental protection and job safety to handle environmental protection matters pursuant to the requirement of the local regulations

2.3 Finance risks

2.3.1 Cash flow and liquidity

The cement industry is capital intensive and requires a long period of investment before return. The Group keeps constant watch and adopts effective measures to prevent risks from cash flow and liquidity problems:

- The Group adopts sound financial policies to strictly monitor cash control and resource utilization. It has set up an appropriate debt structure to control debt level, speed up fund turnover and reduce financing costs

- The Group has established cash control procedures and standards to enhance cash flow supervision and management both vertically and horizontally

- The Group has maintained an appropriate gearing ratio and stable financial health condition. The Group has sufficient liquid fund to ensure availability of cash flow from existing business, investment in new projects with good potential or dividend distribution for shareholders

2.3.2 Foreign exchange exposure

The PRC is the base for the Group's businesses. Foreign exchange risk exposure mainly comes from loan repayments, interest payments and purchase of parts for repair and maintenance of machinery and equipment. The exchange risks come mainly from exchange rate fluctuations of Renminbi against the US dollar and Euro. The Group keeps constant watch on exchange rate changes of these currencies and market trends. The Group has not entered into any derivative instrument contracts for reducing foreign exchange risks in 2004.

2.3.3 Interest rate risks

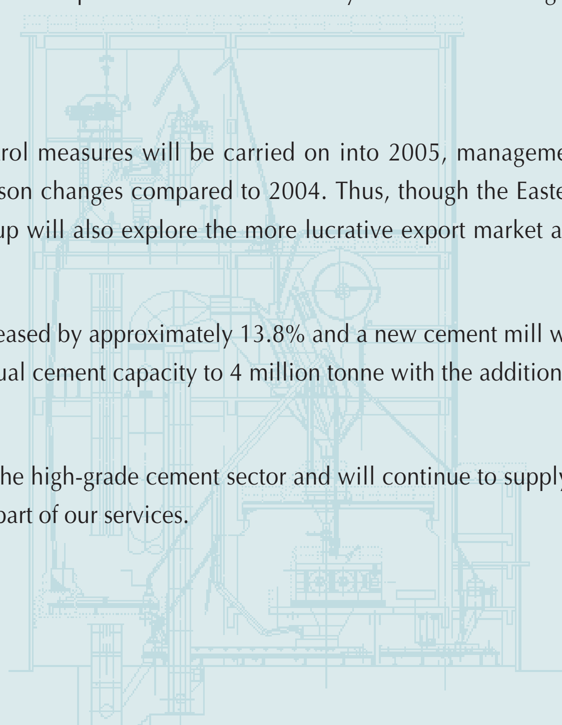
Major financing comes from long-term borrowings denominated in US dollars. The Group manages interest rate risks with caution, reviewing market conditions, operating requirements and financial status constantly to determine the most effective interest rate risk management measures. The Group has not entered into any contracts for hedging interest rate risks in 2004.

IV. Prospects for 2005

As the Group expects that the effects of the austerity control measures will be carried on into 2005, management expects 2005 will be a rather flat year with less drastic season changes compared to 2004. Thus, though the Eastern China market will still be the Group's main focus, the Group will also explore the more lucrative export market and increase our export portfolio.

In 2004, percentage of high-grade cement quantity was increased by approximately 13.8% and a new cement mill was added. For 2005, the Group plans to further expand the annual cement capacity to 4 million tonne with the addition of another cement mill.

The Group's products will continue to be predominately in the high-grade cement sector and will continue to supply a range of high quality, low-grade cement to our customers as part of our services.



Roller Press for Cement Mill